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Responsible Entrepreneurship and Business Ethics

Analytical Compendium

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I. Definition of Corporate Social Responsibility

Different **types of codes of ethics**: Supply-chain Codes, Buyer Codes, Agent Codes ,Factory Certification Schemes. (**The Moral Compass of Companies: Business Ethics and Corporate Governance as Anti-Corruption Tools, pg. 35**)

ISO 26000: The most groundbreaking contribution to the development of a common and updated understanding of corporate responsibility has been the drafting and adoption of the **International Standard “Guidance on social responsibility (ISO 26000)”**. International consumer organizations have been heavily involved and have in fact been the key **initiators of the process**.

In one of its key clauses, the standard describes those core subjects of social responsibility which have to be considered by every credible organization in order to identify its impacts on society and act accordingly. **Consumer interests** have been included in these core subjects, along with considerations on **human rights, labor practice standards, environmental issues, fair operating practices, community involvement** and development as well as **principles for organizational governance**. (**Towards a European CSR framework, pg. 3**)

OECD Guidelines for Multinational Enterprises: In addition to this guidance standard which has the advantage of being clearly supported by a majority of international stakeholders, another already existing tool is of outstanding importance: the OECD Guidelines for Multinational Enterprises which are currently under review.

While the ISO 26000 is a very detailed instrument and seeks to inform internal strategic processes and impact assessments, the **OECD Guidelines** are a rather **concise legal tool**. Also here, consumer interests are viewed as an integral part of a company’s responsibility – setting a minimum standard for tolerable levels of protection and access to information beyond national legal provisions.

It will be a key challenge of the current review to ensure that coherent application of the Guidelines is encouraged and that their potential will be widely used. (**Ibid.**)

This idea of **CSR-driven innovation** relies very much on a strategic approach to CSR and tries to marry an ambition to conquer social problems of a given society with the legitimate desire to be economically successful (through dealing with these challenges). Distinctions are being made between different currents of this approach, such **as Corporate Social Innovation** (focus on adjusting core business more to social needs of consumers/societies) or **Social Entrepreneurship** (identification of social need at the heart of the business model).

The interesting connection therefore lies in the **procedural links between CSR and innovation**. Strategic CSR requires a systematic impact assessment and thorough exchange with different stakeholders, including consumers, business partners and communities along the supply chain. If a company thus looks out for the input which comes from users and receivers, the adoption of an integrated understanding of consumer citizens becomes even more relevant. (**Op.cit, pg. 5**)

The present global financial **crisis offers an historic opportunity to adopt policies encouraging longer-term thinking in financial markets**. Given the current context, Eurosif considers that a crucial aspect to be addressed by the European Commission and SRI stakeholders is enhanced regulation that encourages all participants in the European capital markets to focus greater attention towards long-term performance.

Within this agenda, Environmental, Social and Governance (“ESG”) issues have an important role to play. (**EUROSIF’s Review and Recommendations, pg. 1**)

Furthermore, in August 2010, Eurosif responded to the European Commission public consultation on the modernisation of the Transparency Directive (Directive 2004/109/EC Transparency requirements for listed companies) making recommendations in the following areas:

- Eurosif's position towards corporate transparency within the frame of the Transparency Directive is that the **disclosure of Environmental, Social and Governance (ESG) data by all listed companies should be mandatory** and should be a provision in the Transparency Directive.

- Furthermore, Eurosif considers that the Transparency Directive should encourage the **disclosure by investors on how they integrate environmental, social and governance issues in their investment policies.**

(Op.cit, pg. 3)

Ownership and power imply responsibility from institutional investors. With a long-term investor perspective, it is fundamental that shareowners can actively exercise their rights to vote and engage with the companies they own. An investors' ability to exercise their shareholder rights is essential. Given the importance of decisions taken during annual general meetings (AGMs), it is deeply disappointing to still see participation rates at AGM's below 25% of capital. In this respect, Eurosif's position is that the European Commission should work with the relevant stakeholders to ensure **greater transparency concerning shareholders rights**, in particular concerning the identification of the shareholder, the proxy voting chain and stock lending.

A review of the market transparency regulation is needed. The Commission should adopt measures to:

- Allow shareholders to keep control of their rights at all times.

- Improve accountability of service providers within the proxy voting chain; in particular, require that service providers return confirmation of the vote cast to the agent who has submitted the execution, or an explanation as to why this is not possible.

- **Allow issuers to know who their shareholders are at any moment so that they can communicate to them efficiently.**

(Op.cit, pg. 4)

Some of the **advantages of corporate responsibility** include:

- **Reduced costs** as a result of increased resource and energy efficiency (for example, reduced energy usage in heating and transportation, waste management and recycling, the use of more environmentally friendly materials and/or production processes).

- **Easier to attract and retain qualified workers.**

- Increased motivation, pride and satisfaction among employees (which may result in higher productivity and reduced sick leave).

- **Improved corporate reputation and branding**

- **Reduced risk of negative coverage in the media** and from pressure groups.

- **Improved relations with customers and better access to markets.**

- **Higher standing among consumers** that are concerned with whether goods and services are produced in a decent and sustainable manner.

- **New business opportunities** within the ethical and «green» product range.

- **Preparedness for future rules and regulations.**

- **Easier to obtain favourable conditions with investors and lenders** that view corporate responsibility favourably. (**A matter of trust, pg. 10**)

First and foremost, it has encouraged the idea that when the market is producing bad outcomes, the way to improve it is to change the objectives of the participants. According to this view, corporations do bad things because they are too greedy in their pursuit of profit, so the way to correct this problem is for them to be less greedy, or to pursue other objectives besides profit. The adversarial perspective, by contrast, displaces attention from the objectives of the participants to the rules that structure the interaction. It suggests that **rather than demonizing profit, ethicists should be encouraging firms to respect the "spirit" of the regulatory structure that governs marketplace competition.** People who get hung up on the unethical nature of profit are essentially allowing the pro tanto immortality of a competitive strategy to obscure the overall point of the institution. In this respect, they are like those who condemn lawyers for

“defending rapists and murderers” without looking at the role that a vigorous defense plays in an adversarial trial procedure.

The second unfortunate effect of the failure to acknowledge the adversarial structure of market transactions has been an inability to counter the widespread perception that business ethics is too “touchy-feely” to be of any use in the hard-nosed world of business. The adversarial approach to business ethics outlined here, by contrast, is able to distinguish between “playing hardball” – hard bargaining, nickel-and-diming, aggressive pricing, etc. – all permissible in a market context, and “sharp practices” or “dirty pool” – deception, cost externalization, creative accounting, etc. – which exploit market imperfections, and thus violate the spirit, if not the letter, of the rules under which marketplace competition is conducted. Business ethics, according to this conception, is not an alternative to **The Art of War**; it is more like a **Geneva Convention** or a **code of honor**, a pact aimed at guarding against the almost universal tendency of competitive interaction, when left unsupervised, to degenerate into a race to the bottom.

(An Adversarial Ethic for Business, pg. 33)

Social investment and philanthropic activities – Aimed at mobilizing not only money, but also the company’s people, products and premises to help support and strengthen local communities and non-profit partners.

Policy dialogue and advocacy activities – Efforts by companies, either individually or collectively, to support more systemic change and to participate in relevant public policy dialogues and advocacy platforms with both developing country governments and donor governments.

(Building Linkages for Competitive and Responsible Entrepreneurship, pg. 7)

Key subjects covered in most commonly applied CSR guidance documents

<p>CSR – Economic topics:</p> <ul style="list-style-type: none"> • Pursue sound corporate governance practices • Ensure transparency through economic, social & environmental reporting • Engage in fair competition • Foster innovation • Combat bribery & corruption • Employ Socially Responsible Investment • Protect intellectual property rights • Offer safe and high-quality products/services • Foster sustainable consumption & production • Implement sound risk management systems 	<p>CSR – Environmental topics</p> <ul style="list-style-type: none"> • Support the protection of air and water, land biodiversity • Minimize the amount of toxic substances, emissions, sewage and waste • Conserve natural resources, apply renewable energy & avoid the usage of raw materials • Engage in climate protection • Boost innovation for improvement in efficiency • Consider the whole product life-cycle, facilitate reusability & recyclability of products
<p>CSR – Social topics</p> <ul style="list-style-type: none"> • Engage in fair and efficient Human Resource Management • Guarantee safety, occupational health & security • Respect freedom of association • Abandon discrimination & encourage diversity • Respect consumer interests 	<p>CSR – Global topics</p> <ul style="list-style-type: none"> • Raise stakeholders awareness for social & environmental topics • Practice sound stakeholder management • Facilitate sustainable supply chains • Respect Human Rights • Engage in poverty reduction • Involve in the development of public policies

(Does corporate social responsibility pay off – exploring the links between CSR and competitiveness in Europe’s industrial sector, pg. 16)

II. CSR Doctrine: Contents, impact, benefits

One way of addressing this dilemma and others is the establishment of **strong corporate governance**. It is increasingly emerging not only as a tool that **increases efficiency, improves access to capital, and ensures sustainability** — it is also emerging as an effective **anti-corruption tool**. Simply put, on the day to day transaction level it makes bribes harder to give and harder to conceal. At the decision-making level, it injects transparency and accountability, so that it is very clear how decisions are made and why. **(The Moral Compass of Companies: Business Ethics and Corporate Governance as Anti-Corruption Tools, pg. 2)**

Customers need to feel that they are treated fairly and honestly. This in turn, depends much on the **quality of institutions**, such as **contract enforcement, rule of law and property rights**, as well as, **business ethics** — moral guidelines of behavior. In places where institutions are weak, ethics plays a much more fundamental role in facilitating repeat business transactions and, as such, a sustainable private sector. **(Op.cit, pg. 3)**

The corporate sector is replete with examples of firms that profess strong ethical cultures on paper but become unraveled by corrupt behavior. Having a strong sense of ethics is not a guarantee that a company will always do the right thing. But the opposite is also true: many companies have started from poor reputations and set new benchmarks of corporate ethics. The key component underlying much of what the best ethical companies do is leadership. Leadership — made visible through actions, commitment, and examples — sets the moral tone that emanates from the top of a company and that translates ethical principles into the concrete behavior expected from all persons acting on behalf of a company. **(Ibid.)**

Costs of corruption on the country level are well documented in a variety of studies:

- **Resource misallocation.** Resources that could be put to productive uses are instead devoted to corruption. Firms waste time and resources on rent-seeking - cultivating relationships with officials and spending on bribes. Officials make biased investment decisions that do not serve the public interest, and taxpayers swallow the cost.

- **Lower investment.** Foreign and domestic investors are scared off by **unpredictable costs**. Rampant corruption signals to potential investors that the rule of law, and thus property rights, are very weak in the country, making an investment there a risky proposition. Lower investment means lower growth.

- **Reduction in competition, efficiency, and innovation.** Rent seeking means that favored companies do not compete on market signals alone, while new firms face high barriers to entry. Consumers end up paying in terms of higher prices, lower quality, and limited product offerings.

- **Unresponsive policies and poor administration.** Lawmakers in corrupt systems use their powers to help rent-seekers, not the citizenry as a whole. Bureaucrats are not held accountable for their performance and actually have incentives to delay services in order to extract bribes.

- **Lower employment.** By forcing businesses into the informal sector, creating barriers to entry, and increasing the costs of doing business, corruption essentially reduces private sector employment, because firms are less likely to grow. Small businesses are hit especially hard.

- **Exacerbated poverty.** Corruption lowers the income potential of the poor because there are fewer private sector opportunities. It also limits their access to quality public services such as healthcare and education.

(Op.cit, pg. 7)

The **World Bank's Worldwide Governance Indicators** (WGI) project, Governance Matters VII: Governance Indicators 1996-2007, is a classic reference. It covers 212 countries, 35 different data sources, and 6 governance dimensions, one of which is "**controlling corruption**". WGI validates a salient finding from the time-series data: on average, the "controlling corruption" dimension shows hardly any positive movement for both developed and developing nations, which is not the case for the other five governance dimensions measured by the report. The policy implication of this finding confirms knowledge drawn from experience: it is very difficult to eliminate and control corruption. However, a second salient finding is what the authors refer to as the "**300% development dividend**", namely that better governance (the aggregate of the six dimensions) translates to a **three-fold increase in per capita income in the long run**. So improving governance matters to the fight against corruption and, more generally, to broadening the opportunities to escape poverty. (Op.cit, pg. 8)

Although ethical behavior is considered more as the right thing to do than a calculation of whether it leads to higher business profits, numerous attempts have been made to **estimate the financial value of ethical behavior and good corporate citizenship**. There are quantitative and perception studies, all fraught with methodological flaws since there are no reliable indicators with which to measure the financial gains of business ethics. But despite methodological compromises, all tend to support the intuitive knowledge that entrepreneurs gain from business experience: integrity is the foundation of sustainable business and contributes to greater shareholder value. Two researchers (Margolis and Walsh, 2002) analyzed 95 studies produced over a 30 year period examining the link between social and financial performance, and found a strong positive correlation between ethical and financial performance. Perception surveys also reveal consistently across different countries, cultures, and industries the belief that **ethical companies are more successful than those that are not, particularly over the long run**. It may be difficult to accept the value of business ethics without precise figures, particularly in a managerial age that is accustomed to using precise metrics for decision making and managing operations. However, the business world is filled with case studies of corporate collapses and severe financial losses stemming from weak or inexistent corporate ethical cultures. The opposite is also true: plenty of qualitative evidence demonstrates that ethical behavior pays off over time with brand and corporate reputation, customer and employee loyalty, and just as important, overcoming crisis situations that place the company's survival in jeopardy. (Op.cit, pg. 13)

Two McKinsey surveys — Global Investor Opinion Survey (2002), and Global Survey of Business Executives: Business and Society (2006) — interviewed over 200 institutional investors who collectively manage approximately US\$2 trillion in assets, and 4,238 executives (more than a quarter being CEOs) from 116 countries, respectively. The first survey revealed that investors are willing to pay a premium for **companies that demonstrate high governance standards: average premiums of 12-14% in North America and Western Europe, 20-25% in Asia and Latin America, and over 30% in Eastern Europe and Africa**. Interestingly, the second survey showed that whereas more than half of all executives employ public relations and lobbying as strategies to manage social and political challenges, a larger proportion believe that more effective strategies are to be found in developing ethics policies and increased transparency about the risks of products or processes. (Op.cit, pg. 14)

Senior executives have the paramount responsibility to embed ethical behavior into the culture of the company. By leadership, boards and CEOs can build an ethical organization and become the benchmark to be emulated by competitors, industry peers, and the private sector in general. Such visible commitment helps keep the organization on track to progress from just having a firm commitment to business ethics to creating an organizational culture where ethics is a central consideration in business decisions across all layers of a company. The perceived and observed behavior by senior management sets the tone throughout the company, it establishes the commitment and reputation of anticorruption initiatives, and it shapes the identity of the company. To an ethical organization, ethics is about doing business right, not an issue of compliance. In practice this means that to uphold its ethical philosophy, at times a company must stand ready to lose business before compromising its values. (Op.cit, pg. 18)

The World Bank's Doing Business survey of more than 100 countries, for example, clearly showed that heavy business regulation and procedural complexities in the judiciary are associated with higher levels of corruption. The Heritage Foundation/Wall Street Journal annual Index of Economic Freedom also

illustrates well that **higher degrees of economic freedom are correlated with lower corruption**. What one can derive from looking at the Doing Business survey and the Index of Economic Freedom is that **corruption is directly related to the enabling environment issues**. In that sense, efforts to establish the rule of law, strengthen the protection of property rights, and improve the quality of regulations become crucial in anti-corruption reform. Such efforts are also crucial in improving ethical standards. (Op.cit, pg. 25)

Corporate governance not only sets up a system of institutions that govern the relationship between owners, investors, creditors, and managers, but also serves as a **reform incentive towards global best practices of legal and regulatory frameworks**. As an anti-corruption tool, corporate governance introduces standards and mechanisms of transparency, accountability, and compliance with laws and regulations, which over the long run exposes bribery and illegal behavior that makes corporate corruption unsustainable. (Op.cit, pg. 43)

Underlying much of corporate governance is another key dimension — business ethics. Often viewed with skepticism, ethical behavior on the part of individuals, especially company leaders and decision makers, underlies much of what companies do and don't do in establishing good governance mechanisms and combating corruption. **Ethics, in this regard, has to be thought of as a set of principles and values by which a company defines the very nature of its mission and operations, guiding the behavior of its board members, management, and employees at all staff levels**. It is about leadership and organization-wide commitment to adapt and embody a company's ethical values in all decisions and operations, rather than to attempt to prescribe top-down rigid rules that will have no bearing on how a company functions on a day-to-day basis. (Ibid.)

The **Responsible Entrepreneurs Achievement Programme (REAP)** was developed by **UNIDO** based on these considerations. It is a **practical CSR based management and reporting tool** that helps smaller companies to implement CSR concepts, thereby aligning economic, social and environmental aspects of business (also referred to as "Triple Bottom Line Approach"). Based on the ten principles of the UN Global Compact, as well as international standards in the social and environmental domains, such as ISO 14001, SA 8000, or OHSAS 18001, it provides a structured framework in combination with an analytical software, which can be used to gather, process, evaluate and report data to track progress in implementing CSR in SMEs. (**Responsible Entrepreneurs Achievement Programme, pg. 1**)

CSR cannot be simply transferred to (or imposed on) smaller companies. SMEs do not share many of the concerns underlying calls for enhanced ethical business standards of larger companies, and in addition they face considerable human, technical and financial resource constraints. Therefore, there is a need to modify approaches in a way that they fit their respective needs and capacities, and do not adversely affect the economic viability of those firms.

While large corporations give relatively higher weight to reputation and image benefits, for smaller businesses the bottom line of short-term economic survival is more pressing. They tend to be more vulnerable to losses and will thus be more dependent on direct economic benefits of CSR oriented strategies. (Op.cit, pg. 3)

The root cause of the business and human rights predicament today lies in the **governance gaps created by globalization** - between the scope and impact of economic forces and actors, and the capacity of societies to manage their adverse consequences. These governance gaps provide the **permissive environment for wrongful acts by companies** of all kinds without adequate sanctioning or reparation. How to narrow and ultimately bridge the gaps in relation to human rights is our fundamental challenge. (**A regulatory framework on corporate accountability, pg. 2**)

Trust in businesses has to some extent been damaged during the crisis. However, the level of **commitment and ambition of companies to CSR has not diminished as a result of the crisis**. Over 2009 and 2010 European companies have continued to find innovative ways to integrate CSR into their business practices and strategies. This reflects the fact that CSR is deeply inherent in the European way of doing business. BUSINESSEUROPE member federations have also been active in 2009 – 2010 to

further the uptake of CSR amongst member companies by providing guidance, assistance and specific tools. (**BusinessEurope Reprot 2010 CSR Multistakeholder Forum, pg. 1**)

Consider the plurality of forms of doing business, differentiating multinationals from SMEs, private stock companies from co-operatives societies, in respect to company size, specificities, and **ways to address CSR issues.**

- Pay more attention to **co-operatives as a model of enterprise that makes CSR part of its values**, realities and core business, and so contributes to EU2020 Strategy's targets: focus on people and employment, economic development, social inclusion, participative and democratic governance. Co-operatives have a natural interest in CSR and are determined to push it at the European level for promoting a sustainable economy, putting people and responsibility first with a sustained fight against exclusion and a transition to a green economy.
- **Encourage transparency and non-financial reporting**, as countries like Denmark, the Netherlands, Norway and France do with reporting requirements discussed by all stakeholders.
- Encourage the **transposition of revised Public Procurement Directives of 2004 into national laws**, to favor socially responsible business by including social and/or environmental clauses to contracts.
- Continue to favor the **exchange of best practices on CSR**, and go beyond by encouraging too the analysis of effects derived from CSR policies.
- **Support a transversal and transdisciplinary approach**: it's important to foster the inclusion of CSR in every Community policy and encourage the cooperation of the different European Commission directorate-general in a "decompartmentalization" process.
- Pursue and strengthen the **dialogue within the Multi-stakeholder Forum on CSR. (Cooperatives Europe, Stakeholder document, pg. 5)**

Many companies in Europe and worldwide realize that **sustainability and responsibility have become critical drivers of stable economies and sustainable growth**. They are striving to make a positive contribution to society through entrepreneurial solutions and build their reputation on a governance culture driven by integrity and transparency, sustainable products and services, and proactive cooperation with stakeholders. (**CSR Europe's Contribution, pg. 1**)

To support the development of such a European Approach, the European Commission together with Member States and the organisations engaged in the **European Multistakeholder Forum on CSR** could explore the feasibility of a **three-year Action Programme** which could investigate the following areas:

- Define the shape of a meaningful **global performance reporting** in a way that its inherent complexity is respected and applicable to all organisations, not only enterprises.
- Examine the trends and **best practice approaches on CSR/sustainability reporting and communication** regarding the use of the Internet with a view of encouraging enterprises and stakeholders to improve ESG disclosure in an integrated, engaging and transparent manner, bearing in mind costs, gains and feasibility – also for SMEs – with a focus on the following dimensions:
 - o **Report formats**: The company provides easy access to relevant CSR information through different channels adapted to stakeholder needs and preferences
 - o **Topical updates**: The company uses its website to inform stakeholders on topical matters and regularly provide updates on their CSR performance
 - o **Multimedia features**: The website offers enriched user experience through
 - o **innovative and effective use of multimedia** (image, video, sound)
 - o **Interactive dialogue**: The company invites stakeholders to provide feedback and uses the possibilities of the web to engage in active dialogue
 - o **Personalisation**: The website allows users to customize information for their needs
- Convene a **vanguard group of European companies and investors** willing to take the lead in improving the analysis and public disclosure of core areas of global performance (see European Framework developed by the European Laboratory on valuing non-financial performance);
- Use the current dialogue between companies, investors, their trade bodies and other stakeholders on ESG performance to **incubate the internal accounting standards bodies'** exploration of integrating core drivers in recognised reporting standards;

- Build the foundations of a **European Centre for training companies**, analysts and investors in how to evaluate global performance and its relevance to corporate strategy, management processes and company value. **(Op.cit, pg. 11)**

An increasing number of firms have embraced a **culture of CSR**. Despite the wide spectrum of approaches to CSR, there is large consensus on its main features:

- CSR is behaviour by businesses **over and above legal requirements**, voluntarily adopted because businesses deem it to be in their long-term interest;
- **CSR is intrinsically linked to the concept of sustainable development**: businesses need to integrate the economic, social and environmental impact in their operations;
- CSR is not an optional "add-on" to business core activities - but about the way in which businesses are managed.

Socially responsible initiatives by entrepreneurs have a **long tradition in Europe**. What distinguishes **today's understanding of CSR** from the initiatives of the past is the attempt to **manage it strategically and to develop instruments for this**. It means a business approach, which puts stakeholder expectations and the principle of continuous improvement and innovation at the heart of business strategies. What constitutes CSR depends on the particular situation of individual enterprises and on the specific context in which they operate, be it in Europe or elsewhere. In view of the EU enlargement it is however important to enhance common understanding both in Member States and candidate countries.

(Corporate Social Responsibility: A business contribution to Sustainable Development, pg. 5)

Several market-driven **international multi-stakeholder initiatives** are emerging, which work towards **convergence and transparency in the area of CSR**. Member states have taken various initiatives to promote them, in accordance with their respective approaches to CSR. The Commission wishes to do its part in facilitating convergence and transparency in the area of CSR, by facilitating the development, diffusion and acceptance of these international multi-stakeholder initiatives by enterprises and stakeholders.

Increased convergence and transparency would be desirable in the following fields:

- (1) Codes of Conduct,
- (2) Management standards
- (3) Accounting, auditing and reporting
- (4) Labels
- (5) Social responsible investment

(Op.cit, pg. 13)

These **signals come from different players**, including

- Investors - seeking to invest in line with their own values, or in line with an expectation that companies with a CSR approach will be better investments;
- Consumers and others in the supply chain
- Choosing one product, service or company over another on the basis of their understanding of its environmental or social credentials;
- Public authorities - through a range of mechanisms including promotion and information provision, their own role as purchasers, regulatory and fiscal signals;
- NGOs - monitoring and assessing the environmental and social impact of business and campaigning for improvements;
- Trade unions - seeking to influence company behaviour through mechanisms such as collective agreements;
- Other companies, business networks, intermediaries and supply chains - co-operatively through sharing experience, developing a shared understanding of better approaches and expectations, providing external benchmarks and challenging practices in business to business relationships. **(Final Results and Recommendations, pg. 9)**

Critical Success Factors

The four Round Tables identified some critical success factors for credible and effective CSR, including:

- **Commitment from key people** - directors, owners, senior managers;

- Ensuring that the values and vision of the **CSR approach are integrated into the business and its culture**;
- Integrating the CSR approach and any associated practices and tools, with the corporate strategy, core business, mainstream management processes and policies, and everyday operational practice. This might mean adapting existing systems, or adopting or developing new ones;
- **Setting appropriate goals or targets, related to the core business**, developing a staged plan for achieving them (including some quick wins), evaluating progress towards them, and communicating this appropriately;
- **Communicating about the approach, strategy, aims or activities** in a transparent and meaningful way. Such communication is also a way of helping to magnify the benefits associated with drivers of CSR practice, for example through aiding learning and innovation, as well as building credibility and helping to improve relationships with stakeholders.
- **Openness to learning, improvement and innovation**;
- **Engagement with external stakeholders** - including local stakeholders in non-EU countries - understanding their views and expectations, being open to learning from them, communicating well with them about issues, goals and progress, being open about areas of agreement and disagreement and thus building a trusting relationship, where the company and its stakeholders are willing to co-operate in good faith in efforts to achieve its CSR goals, including to the extent of working in partnership together;
- **Involving employees and their representatives** in developing and implementing CSR, programmes, activities and initiatives;
- **Sharing experience, learning from and with peers**, in sectoral and multi-stakeholder initiatives or through networks, good practice examples, initiatives and benchmarking, and being willing to solve problems, innovate and improve as a result of this learning;
- **The availability of easily accessible and specific advice**, and appropriate, **effective and credible tools** and initiatives which the company can learn from when developing its own approach, use, or join in with, which are suitable to its circumstances or are flexible enough to be enable the company to learn over time, innovate and respond to circumstances.
- Particularly for developing countries, the existence of an appropriate **legal environment** which reinforces compliance with fundamental standards, and the presence of strong civil society organisations such as trade unions and NGOs as stakeholders and potential partners;
- A **high level of awareness among consumers and investors**, of the issues and companies' options in responding to them. (**Op.cit, pg. 10**)

Corporate social responsibility (CSR) is not a meaningful term to use with entrepreneurs and owner/managers of SMEs, who react negatively to the terms “corporate” and “social responsibility.” The term “voluntary,” an essential part of the European Commission definition of CSR, is confusing in the context of SMEs, whose managers lack awareness of many regulations and are unable to distinguish between mandatory and voluntary, especially for environmental regulations. Entrepreneurs resist standards and formal codes, but they do care about their employees and communities, and are very oriented toward their customers and markets. So, our **proposed working definition** is:

“Responsible entrepreneurship is a concept and a process whereby entrepreneurial enterprises integrate social and environmental concerns in their business operations and interactions with their stakeholders.”

Five major drivers lead entrepreneurs to act responsibly:

- The values of the owner/manager.
- Cost savings (for example, eco-efficiency).
- Supply-chain engagement and business customers’ requirements (codes, monitoring).
- The potential to increase revenue and attract new business.
- Attraction, retention and motivation of employees.

Values inspire and underpin any discussion of social and environmental responsibility. SME values practiced by owner-managers and/or founders are rarely spelled out in codes. There are five values that bridge continents and cultures to influence the behaviour of responsible entrepreneurs:

- **Honesty:** operating with transparency and integrity and being trustworthy.
- **Fairness:** treating employees and suppliers as they would like to be treated themselves, providing meaningful work and good workplace practices and conditions.
 - **Respect:** dealing with people, without discrimination, as individuals, honouring their human rights and contributions.
 - **Responsibility:** recognizing the need for sustainable development and acting upon it.
 - **Generosity:** sharing success, both within the company and the community.

(Responsible Entrepreneurship: Engaging small and medium sized enterprises in socially and environmentally responsible practices, pg. 2)

In the revised Sustainable Development Strategy, the Commission called “on the business leaders and other key stakeholders of Europe to engage in urgent reflection with political leaders on the medium- and long-term policies needed for sustainability and propose ambitious business responses which go beyond existing minimum legal requirements”. **(Implementing the Partnership for Growth and Jobs: Making Europe a Pole of Excellence on Corporate Social Responsibility, pg. 3)**

Different businesses face different challenges. Each company must decide for itself which issues and challenges are most relevant and important to focus on. The company’s core activities should be the deciding factor. Is it the release of pollutants in the air or dealing with corruption that represents the biggest challenge for your company? It is also important to be aware of what the company is already doing. **Many companies are involved in activities that benefit the environment or society without necessarily labeling them «corporate responsibility».** It is a good idea to start off by taking stock of existing activities and working from there. Take one step at a time. **(A matter of trust, pg. 4)**

Morality arises in response to the fact that human affairs, when left to their own devices, have a tendency to go very badly. Thomas Hobbes summed it up best with his observation that the unbridled pursuit of individual self-interest generates a “natural condition” in which life is “solitary, poor, nasty, brutish and short.” This is because individuals who refuse to exercise any restraint in the pursuit of their self-interest rapidly become embroiled in collective action problems – interactions in which, despite acting in a self-interested fashion, each individual winds up with an outcome that is much worse than some other feasible outcome, which might have been achieved had they all chosen to act differently.) **(An Adversarial Ethic for Business, pg. 4)**

Potential benefits and opportunities of ‘getting it right’ – good ethical, social and environmental performance and/or leadership on a specific issue can protect or enhance a company’s financial value.

- **Improved risk management,** better risk profile and credit ratings
- **Avoidance of costly regulation**
- **Better access to capital** through greater investor confidence, access to socially responsible investment funds, lower insurance premiums and more favorable credit terms
- **Reduced operating and resource costs**
- **Improved process efficiency** and effectiveness
- **Enhanced intangible assets,** such as good reputation, brand equity, product and service quality, successful innovation, increased employee motivation and productivity, positive stakeholder relationships
- **Better organizational function,** through creation of a more integrated performance-driven culture, greater cross-boundary linkages and employee learning and motivation
- **Easier to attract and retain talented employees and loyal customers**
- **More attractive as a reliable strategic partner**
- **Recognition as a neighbor of choice** by local community leaders and public authorities
- **Increased differentiation of existing product** and service offering
- **Greater opportunities for innovation** and for new product, service and market development
- **Competitive advantage,** through lower costs, differentiated products, or new products, services and customer solutions.

(Building Linkages for Competitive and Responsible Entrepreneurship, pg. 6)

Among those, the **High Level Group** highlighted **three main areas: innovation and research, responsible use of natural resources and open markets with fair competition**, as being key for securing the future leading competitive position of the European chemical industry. The report has also emphasised that the provided recommendations have not only been identified as helping the chemical industry get through the effects of the global economic crisis, but also as the key areas that can secure the chemical industry's future. The recommendations are far reaching and cover a wide range of areas that have also been the focus of this study. These include the need for attracting talent, dependency on the cost of raw materials, increasing stakeholder trust and improving energy efficiency, as measures that would help the industry in responding to the increasing global challenges it faces (European Commission, 2009c). **(Does corporate social responsibility pay off – exploring the links between CSR and competitiveness in Europe's industrial sector, pg. 20)**

CSR topics vary according to regulations, consumer demand, incentives to engage in CSR, and the degree of CSR implementation in a sector or country. Environmental CSR issues are of high relevance for all three sectors, while social issues depend on the societal impact areas of a sector: risk in the chemical industry, occupational health and safety in construction and human rights in the textile supply chain. While in the chemical sector **Responsible Care** is seen as a **sector-wide voluntary CSR initiative** that has been driving the CSR uptake the most for two decades, the uptake of CSR in construction depends on client demands and type of projects and in textile on consumer demands and the credibility of eco-labels. Most experts shared the opinion that CSR increases production costs in the short run (through investment in new technologies, R&D and human resources), but at the same time they expected a rather positive impact on success factors in the mid to long term. The most positive effects of CSR measures are foreseen for niche markets and product differentiation strategies, brand value and reputation, and customer relations. Investment into CSR might also lead to higher product prices which are seen as challenging especially in the textile and the construction industry. Financial incentives, consumer demand, legislation and societal pressure are seen as the most important driving forces for CSR uptake. **(Op.cit, pg. 72)**

While no individual CSR Policy can be characterized as following specifically this approach, the whole idea of linking CSR and competitiveness can be seen in the light of **Porters' Five Forces**: While European industries are facing increased competition from outside Europe CSR is expected to help them regain competitiveness through innovation, outstanding product quality and brands, high social and environmental standards. It is obvious that this idea is in contradiction with the vision of sustainable development: Is CSR seen as a source of competitive advantage CSR measures should be designed in a way that they cannot be imitated by competitors. In contrast sustainable development is heading for a quick dissemination of new ideas and technologies to achieve environmental and societal impacts. For future studies and policies we would recommend focusing on the links between CSR and "business excellence". **(Op.cit, pg. 75)**

The **enterprises promoting the CSR have the distinct competitive advantages**. They are the critical and highly valued resources for the successful management in global businesses. Their intangible characteristics, behaviors and qualities deliver tangible and preferred business results. As more companies recognize the benefits the CSR brings, in future it may become a corporate expectation and standard of performance. On the other side, the CSR encourages employees at all locations worldwide to volunteer time to assist in a wide range of community outreach activities. In North America, these may include **Junior Achievement, Habitat for Humanity, volunteer fire fighting, community counseling, support to health organizations and terminally-ill patients, local school programs and environmental conservation**.

Globally, these activities take shape to match the varying needs of the local communities. **(Does the social relationship matter, pg. 4)**

According to employees, the major changes in companies after the implementation of CSR projects and programmes are investments in employee's training and retraining. Only a quarter of the interviewed employees stated that the main change after the introduction of CSR was recreational facilities for

employees and their family members. Thus, social responsibility is really useful to employees because employers try to improve their motivation not only in terms of money, but also in social terms. It is shown even better in Figure 4 on benefits for employees. Every second employee maintained that he had an opportunity to attend training courses and upgrade his qualification, and one in four indicated to feel more valued as a result of this opportunity. It is clear that during the period of current crises the opportunity to learn and grow is very important to employees. (Op.cit, pg. 8)

Philanthropy and stakeholder requests do not increase the competitive advantage and ethics of business and society. Therefore, the innovatory CSR models can be a useful tool to help global organizations develop, implement and drive CSR within the core global business strategy and set CSR standards worldwide. Because business and society have a reciprocal relationship, people can use their money to increase business competition, education and other quality of life concerns when people desire a better way of living in the present and in the future that can result in “a place to shine” (participant two). CSR values, not stakeholder demands or charitable contributions from global business leaders, managers and individual employees play a significant role in reducing globalization’s unintended consequences and increasing the competitive advantage of global organizations and society. Furthermore, instead of global organizations solely responding to stakeholders’ requests and meeting society’s charitable norms, global organizations can become a resource to shape and advance cross-cultural CSR best practices and policies worldwide. In sum, the innovatory CSR models integrate internal and external CSR domains that can create a global common framework to set CSR standards and achieve worldwide business and society excellence.

(Innovations in Corporate Social Responsibility from Global Business Leaders, pg. 7)

CSR should be aimed at improving a company’s reputation. Companies with good reputations are deemed to perform well on the market. Their strategic competitive position improves, as they can attract qualified staff, rely on the loyalty of staff, investors, customers and suppliers and demand higher prices. A good reputation is seen as a success factor in strategic alliances and mergers. It creates trust and goodwill as well as the power to set agendas and exert influence. It is therefore also worth considering CSR from a reputational viewpoint. The economic vulnerability resulting from a loss of reputation can be enormous. As the legendary Warren Buffet once put it, “**It takes ten years to give a company a good image, but only seconds to lose it**”. Being thought of as trustworthy, dependable and reliable are becoming ever more important to a company’s reputation. In the future, reputation will have the same value as a brand, so that the development of reputation must be understood as a long-term investment. It is interesting to note that companies that act responsibly often also have greater economic success in the long term.

Those who observe their environment and their fellow human beings carefully and are willing to become involved with issues of general interest are better prepared for the future, as they recognise trends and problems in their own environment better and faster, and can include them in their strategic considerations. **Noreena Hertz, Professor of Global Political Economy**, identifies **three key factors** which make it indispensable for companies to act ethically and in an environmentally responsible manner:

- **Reputational gain for the company**
- **Reduction of financial risks in connection with potential litigation.**
- **Creation of competitive advantage by adopting upcoming regulations early.**

(Good Company Ranking Report Edition 2007, pg. 4)

There is increasing interest among some business academics and large companies in the notion of ‘doing business with the poor’¹⁴, and the ‘fortune at the bottom (or base) of the pyramid (BOP)’¹⁵. A recent report of a UN Commission on the Private Sector and Development underlines an interest in such approaches at a policy level.¹⁶ But much of this interest focuses on the opportunities for large, multinational enterprises:

Improving the lives of the billions of people at the bottom of the economic pyramid is a noble endeavor. It can also be a lucrative one. ... Everyone knows that the world’s poor are distressingly plentiful. Fully 65% of the world’s population earns less than \$2,000 per year—that’s 4 billion people. But despite the vastness of this market, it remains largely untapped by multinational companies.

A similar philosophy is being promoted by a number of current NGO initiatives. The World Resources Institute (WRI) ran a conference in December 2004 entitled 'Eradicating Poverty through Profit'18, a theme also being promoted by Chatham House as 'Tackling Poverty through Profit'. The World Business Council for Sustainable Development (WBCSD), a coalition of 170 international companies, currently runs a project entitled 'Sustainable Livelihoods'. This is based on the observation that "the poor crucially lack two things: 1) **the opportunity to earn a better living and thereby increase their purchasing power,** and 2) **a tailored supply of products and services that adequately respond to their needs and that are appropriate in their design and price**". The project "seeks ways by which business can extend the benefits of the market to serve people, address their needs and allow companies to develop their business sustainably and profitably". The subtitle of a recent output from the project is "Learning Journeys of Leading Companies on the Road to Sustainable Livelihoods Business". (**Small and Medium-sized Enterprises and Corporate Social Responsibility, pg. 7**)

As educators we need to be concerned not so much with minimum scores as with minimum wages, not with classroom deportment as much as with business ethics, less with the distribution of grades than with the distribution of wealth (Purple, p. 197). Having students participate with existing ventures or start ones of their own in the community instantiates the classroom learning with lived experiences that cement theoretical learning in practical ventures. It is not just a matter of students getting "real world" experiences that concerns us here. This model builds on the link between the emergence of new types of economies, creativity, sustainability, and entrepreneurial activity (Parrish& Foxon, 2009). Business schools in cooperation with other academic fields have the ability to convincingly demonstrate and model that business ventures, such as social entrepreneur activities, are well situated to change the world, with or without a profit motive. We agree with Neubaum, Pagell, Drexler, McKee-Ryan, & Larson (2009) who assert that **business ethics education, for instance, is a necessary and vital component of more than just ethics courses**. As long as business schools continue to use money, sometimes clothed in other terms like economic development or capital investments, as the ultimate indicator of business success, we are doomed to retaining old ways of thinking (Neubaum et al.). (**Transforming Sustainability Education, pg. 3**)

III. CSR Schemes and Guidelines

The **Universal Declaration of Human Rights** has over time established a global consensus on the applicability of **universal moral principles** across all types of cultures and nations. These principles are now reflected in today's landmark documents of business ethical behavior: **OECD Anti-Bribery Convention; UN Convention against Corruption; World Economic Forum's Partnering Against Corruption Initiative-Principles for Countering Bribery; Transparency International's (TI) Business Principles for Countering Bribery; International Chamber of Commerce Rules of Conduct to Combat Extortion and Bribery; and the UN Global Compact Principle 10 on Anti-Corruption**, among others. (**The Moral Compass of Companies: Business Ethics and Corporate Governance as Anti-Corruption Tools, pg. 3**)

The guidelines take into considerations **company actions** in:

- Establishing ethics and compliance standards and procedures,
- Appointing high-level persons to oversee ethics and compliance,
- Taking due care in the delegation of substantial discretionary authorities to individuals,
- Effectively communicating standards and procedures to all employees and agents through training and also through printed and electronic materials,
- Monitoring and auditing the operation of the ethics and compliance program and establishing a retribution-free means, (e.g., a help line) for employees to obtain information about standards and procedures and to report possible wrongdoing,
- Consistently enforcing discipline of employee violations, and

- Responding promptly to any wrongdoing and remedying any program deficiencies
(Op.cit, pg. 26)

Complementing program audits is the **concept of directors' ethics training**. Many multinational companies are now routinely putting on ethics training programs for their directors. The subjects covered include:

- Fiduciary duties
- Corporate opportunities
- Principal regulations governing company business
- Personal liability
- Corporate law
- Stock exchange regulations
- Insider trading
- Business secrets
- The employee training program

(Op.cit, pg. 27)

A good code not only describes an operational process and regulates the behavior of managers and employees, but it also sets long-term goals, communicates the company's values to the outside stakeholders, and motivates employees giving them pride in working for a company with clearly articulated, unequivocal values of conduct and operation. The value of a code of ethics is that it is more than simply a statement of a company's moral beliefs. **A well-written code is a true commitment to responsible business practices** in that it outlines specific procedures to handle ethical failures. Codes of ethics today address a variety of issues including work environment, gender relations, discrimination, **communications and reporting, gift giving, product safety, employee-management relationships, involvement in the political sphere, financial practices, corruption, conflicts of interest, and responsible advertising.** (Op.cit, pg. 30)

As part of the ethical management systems that are **put in place to safeguard consistency**, it will entail **hiring and promoting staff based on demonstrated integrity and ethical performance**. Another critical action is providing **safe reporting systems** such as **anonymous whistle-blowing hotlines** to report risky or unethical behavior. **Training on company values, standards, and compliance procedures** is another essential element to ensure that employees adhere to and uphold the code's stated values and policies. Through training, the code's ideals take root by demonstrating their practical application. Training, supported through simulations and case scenarios, is helpful to employees in not compromising the company's integrity when faced with ethical dilemmas. (Op.cit, pg. 32)

The **REAP software** allow the UNIDO **CSR consultants** to:

- Provide the SMEs with **management information** regarding their CSR performance (documenting financial, social and environmental performance as well as implemented measures for improvement)
- Develop an **action plan for SMEs** to implement

CSR or improve their ethical performance in specific domains

- **Track achievements** during the consulting process by creating a picture to the situation before and after the intervention (track changes in various CSR domains periodically)
- Create **CSR reports** and other marketing and positioning documents to help SMEs gain access to global supply chains (provide information on CSR performance improvements to relevant stakeholders)

Also the REAP software is based on **best practices in responsible supply chain management, the 10 principles of the UN Global Compact** in the field of human rights, labour standards, environment and anti-corruption, and the TBL approach including financial, environmental and social data to measure a company's performance.

(Responsible Entrepreneurs Achievement Programme, pg. 4)

I. The Council should mandate the Commission to develop a framework based on the principle that States must prevent third parties, including businesses from abusing human rights law and standards. Amnesty International recommends the framework to ensure that member states: a. through legal and

policy measures require **corporate actors to conduct human rights due diligence and mandatory reporting**, and impose **sanctions if corporate actors fail** to carry out such requirements.

b. put in place **legislative and other measures to prevent businesses** in their countries from causing or contributing to human rights abuses in their operations outside the country.

II. The EU Regulation 44/2001, known as '**Brussels I**' currently under review, should introduce a **common standard of liability**. Civil and criminal liability of corporations as legal persons for human rights abuses within and outside of the EU needs to be ensured in all EU member states, and include liability of parent corporations for their subsidiaries in non-EU countries.

III. Member states and the EU must ensure that the operation of economic and financial institutions is consistent and coherent with the protection and promotion of respect for human rights, so as to guarantee business activities receiving official financial support do not cause or contribute to human rights abuses. Similarly, financial institutions should make respect for human rights a precondition for their clients throughout the life-cycle of projects or other business activities. **States should insist that both financial institutions and their clients conduct human rights due diligence.**

IV. The EU should engage in international cooperation on the provision of **remedies for human rights abuses**. This would entail international cooperation in investigating alleged abuses, and providing technical and financial assistance to other States to enable sufficient resources and capacities to provide remedies to victims of human rights abuses by corporate actors.

V. The EU should engage in international assistance and cooperation to provide assistance in enforcing remedies granted to those whose rights are abused by companies.

(A regulatory framework on corporate accountability, pg. 4)

The Bundesvereinigung der Deutschen Arbeitgeberverbände, BDA and Bundesverband der Deutschen Industrie, BDI will be launching the CSR internet portal "**CSR Germany**" in a new design at the end of the year. Moreover, two further business federations, the DIHK (Deutsche Industrie- und Handelskammertag) and ZDH (Zentralverband des Deutschen Handwerks) will join in running the homepage, increasing the reach and impact of CSR Germany even more. **(BusinessEurope Reprot 2010 CSR Multistakeholder Forum, pg. 2)**

A Forum on CSR has been created by the Confederation of Italian Industries, Confindustria, to promote CSR best practices among SMEs. This initiative has led to the establishment of a **territorial network followed by the creation of CSR Fora** in different areas of the country with the strong involvement of both entrepreneurs (from local member associations) and experts on CSR. This initiative has proved very useful in the promotion and exchange of CSR practices among SMEs. **(Ibid.)**

In 2009 the Confederation of Danish Industry, DI developed in cooperation with the Danish Commerce and Companies Agency and launched "**The Climate Compass**" (<http://www.climatecompass.dk/>). This is a web-based tool that offers inspiration for companies to prepare a climate strategy to reduce greenhouse gas emissions including a specific Carbon Calculator that allows companies to make an estimate of their own carbon footprint. **(Op.cit, pg. 3)**

The Bundesvereinigung der Deutschen Arbeitgeberverbände, BDA in collaboration with the Bundesverband der Deutschen Industrie, BDI and the Zentralverband des Deutschen Handwerks, ZDH organised an event on the newly adopted **ISO26000** on 26 October 2010 to inform business about this ISO standard on social responsibility. **(Op.cit, pg. 4)**

A growing number of Commission DGs are taking an active interest in CSR, including in the framework of the EU 2020 strategy and related initiatives:

- The Single Market Act, by DG Internal Market, refers to a "**Social Business Initiative**", to support the development of company projects in the social field through use of social rating, ethical labeling and public procurement. It is not clear how this relates to the CSR agenda or whether it would duplicate or lead to contradictory activities.

- DG Internal Market is also planning to launch a consultation on possible ways to improve the transparency of information provided by businesses on social and environmental matters and respect for human rights, which it highlights could lead to legislative initiatives. The consultation is seen as part of DG Internal Market's work on corporate governance; however this is a very different issue to CSR. Corporate governance is dealt with by setting common norms, whereas CSR relates to individual voluntary company approaches.

- **CSR is part of the EU 2020 flagship initiative on Industrial Policy**, which refers to the need, in light of the economic crisis, for a new approach to the balance between short term profit maximisation and sustainable value creation in the longer run. (*Ibid.*)

Some suggestions for further promotion activities:

- **A European CSR award**: This would act as an incentive for companies to highlight how they integrate CSR into their business practices and respond to the continually high demands of stakeholders. It would also facilitate competition between companies, to continuously improve CSR practices.

- **A central contact point for CSR in the European Commission**: This would serve companies, as well as other stakeholders, to provide practical advice on CSR and how to integrate it in companies and organisations.

- Devising a new approach which does not set companies as the target: Rather than starting from the **assumption that business has a responsibility and then defining actions to be undertaken**, it would be more useful to identify the main areas where there are problems, bring stakeholders together and see where business can play a role in devising solutions to these problems. The Commission should work towards reconciling stakeholders' expectations on companies and assess to what extent these expectations are realistic and justified. (*Op.cit*, pg. 5)

Since the beginning of 2007, **21 Laboratories** have been set up (see ANNEX 2). Together, they have involved hundreds of businesses and stakeholder representatives throughout Europe. The first results of the Laboratories were launched in December 2008 as part of **CSR Europe's Toolbox for a Competitive and Responsible Europe**. Clustered around five major themes, all the results and tools are available on www.csreurope.org/toolbox. It is worth noting that many **CSR Laboratories** contributed to important policy initiatives from the European Commission. The Laboratory on **Base of the Pyramid (BOP)**, for instance, has helped the EC's DG Development to elect new inclusive business models among its new priorities. (*CSR Europe's Contribution*, pg. 2)

In June 2009, the European Commission's Directorate General for Research (RTD) announced the allocation of €2.6 million to support a pioneering **three-year research project on Impact Measurement and Performance Analysis of CSR** (aka "IMPACT"). This funding comes from the EU's 7th Framework Programme for Research and has enabled work to start on March 1st, 2010. Coordinated by the Oeko I institute and centrally supported by EABIS, the **"IMPACT" Project is one of the world's largest ever CSR research initiatives**. It brings together sixteen leading European institutions to develop and apply tools that will better enable the assessment and explanation of the multiple impacts arising from CSR activities and policies – at the micro (company), meso (sector and region) and macro (nation states and EU) levels. (*EABIS Input*, pg. 1)

The principal messages from EABIS to the Multi-Stakeholder Forum are that there is a continuing need to improve the practical value and relevance of research on business in society issues. The **generation of more and better -connected knowledge** is critical to the pursuing the objectives of **"smart, sustainable and inclusive growth"** outlined in the recent Europe 2020 Strategy. The COM has a key role to play in promoting more strategic links between SSH research centres and disciplines, between research and practice, and between research and education. Only in that way will business in society research fulfill its capability to contribute to a competitive, environmentally sound and socially cohesive Europe.

Second, particular attention must also be paid to enhancing the skills & competencies of current and future policy-makers and corporate decision-makers. EABIS' view is that CSR, sustainability and business in society issues have been notably absent from EU and member state education policy for too many years – including the Bologna Process. Given the role of business as the central engine of economic growth, more resources should be invested in **understanding how companies develop**

dynam ic capabilities for sustainability, and how management development and training can be transformed to enable this shift. (Op.cit, pg. 5)

There is much the EU could do to reform these legal structures and accountability mechanisms and as identified by the Study of the Edinburgh University, there are two very relevant opportunities. First, the changes to the EU's **corporate reporting framework**, in respect to companies' duties to report on human rights and environmental impacts of their operations, would significantly improve accountability of EU hosted MNEs. The upcoming consultation on nonfinancial reporting announced by DG Internal Market offers a timely opportunity for the EU introduce reforms to ensure more transparency by MNEs it host. Second, **ECCJ proposes changes to EU rules on private international law** that would result in improvements for third-country victims of MNEs to access a remedy. Specifically, the proposals address law defining the competence of Member State courts to adjudicate private law disputes with a foreign element.

However, the ECCJ recognises that in themselves, these reforms will prove insufficient to address the scale of the challenge. **A comprehensive, long term, sustainable, legal and enforceable system for corporate accountability needs to be built.** After three years of legal research which has been reviewed and developed by an array of high profile lawyers, academics and human rights advocates, ECCJ has identified three areas in which the EU could make a significant difference:

1. **Improving the governance in the operations of MNEs** concerning foreign subsidiaries and subcontractors
 2. **Improving disclosure of information**
 3. **Mitigating the practical obstacles facing victims**
- (Review and Recommendations, ECCJ, pg. 3)**

The EU legislation should provide people with **the right to access the information** that is held by companies and that is required **for the exercise or protection of their rights**. The **principle of mandatory reporting of non-financial data is already recognised in EU law**, however, this lacks clarity and effective enforcement, and does not provide victims with legal standing to request the withheld information. Thus, it is difficult for affected people, general public, consumers, investors or even the very management of these enterprises to understand the scope and impact of corporate operations on legally protected public interests and the respective responsibilities of the corporate actors and directors involved.

(Op.cit, pg. 4)

If the EU is to become sustainable and successful for all its citizens, while respecting the rights of the people and the protection of the environment around the world, **urgent change to the legal frameworks governing MNEs** it hosts is required. ECCJ's report "**Principles and pathways: Legal opportunities to improve Europe's corporate accountability framework**" is designed to provide a comprehensive, relevant and realistic legal tool kit to empower the EU to deliver this necessary and urgent reform. **(Op.cit, pg. 5)**

Trade union representatives believed that environmental, social and governance **disclosure often failed to adequately address the most essential issues**, such as restructuring, environmental impact, freedom of association, promotion of social dialogue, working time, health and safety, integration of disabled people, equal opportunities and gender equality.

In particular, participants emphasised that companies should disclose information in the following areas:

- **Information about restructuring plans should be provided in a timely manner**, not just after a decision has been taken. In addition to any CSR relate d voluntary approach, regulatory requirements on the provision of information about restructuring should be respected. Disclosure should regard the minimum notice period for significant operational changes. Disclosure should also include precise information about both job creation and redundancy.
- **Social and economic effects of restructuring**. Companies should provide more information about the number of suppliers affected by restructuring and the consequences for workers made redundant.

- **Companies should report on how they promote collective bargaining** and good industrial relations including in the supply chain. They should also disclose the number of plants with independent trade unions and data on collective bargaining coverage. In general, it was considered that there was too little information available regarding suppliers. Companies should disclose the details of supplier factories.
- Companies should disclose the **percentage of workers on short-term contracts** and other atypical employment forms, including in the supply chain.
- **More transparency concerning pay and other incentive systems for managers.**
- **Companies should disclose information on health and safety** (including causes of accidents, diseases and death at work) and integration of disabled people. **(ETUC contribution, pg. 2)**

Clearly, **CSR as a tool for self control has not provided the desired results.** Measures are needed to **reorient companies away from a focus on short-term benefits towards longterm sustainability.** This requires not only a reform of financial regulation to encourage financial institutions to invest for the long-term, but also increasing the **voice of workers and other stakeholders** within the company and a reshaping of management remuneration to reward sustainable strategies. **(Op.cit, pg. 3)**

Furthermore, the Commission should adopt a more horizontal approach towards CSR -focusing on CSR horizontally across policy areas, for example in policies on trade, procurement and development. The Commission must ensure that minimum standards, such as the ILO core labour standards, are fully applied in trade agreements, public procurement contracts, development policies etc. The Commission should start building effective benchmarks in these policy areas for companies to start stepping up to. **(Op.cit, pg. 4)**

The Commission should look at how it can support the capacity and effectiveness of EU Member State NCPs. Working with the OECD, this could include a range of actions from:

- Provision of central resources for training/capacity -building;
- Support for start-up capacity-building to ensure that new NCPs are able to operate within six months of adhering to the Guidelines;
- Support for Peer Reviews;
- Co-funding of a mediation centre with the OECD for the funding of external mediation; and
- Workshops on emerging issues either of policy or process.

(Op.cit, pg. 5)

Companies alone cannot create an informed demand. This is certainly an area which is open to the non invasive intervention of public policy. The debate on the feasibility of integrating ESG into business has been successfully promoted by the European Commission, which has brought together the various organisations on a single platform. The hope is that their work will continue with the increasing involvement and shared coordination between the relevant DGs of the European Commission, with specific reference to the DG Enterprise and Industry, DG Internal Market and Services and DG Social Affairs and Equal Opportunities, to:

- fully exploit the experience acquired by companies and stakeholders to promote the **diffusion of best practices**
- **develop a summary of the factors that must be taken into account when integrating CSR into businesses** and, consequently, **company reporting.** This would enhance information comparability, higher transparency and market appraisals.

(AIB's contribution, pg. 5)

At the same time, **identifying common frameworks for the global dimension of CSR** is challenging due to the diversity in domestic policy frameworks, protection of workers and environmental regulation. A number of initiatives in which European companies participate, such as **Investors for Africa, World Business Council for Sustainable Development**, and the **UN Global Compact** have sought to identify basic principles and practices. The underlying approach should be that, at global level, just as at European, the implementation of CSR principles should also go over and above the legal requirements

that businesses need to comply with, and approaches should involve consultation with local stakeholders. **(Corporate Social Responsibility: A business contribution to Sustainable Development, pg. 7)**

To facilitate the wider adoption of responsible entrepreneurship practices by SMEs, there is a need to **raise further awareness** about their **economic benefits** and to promote them as a **risk management tool**, as well as to:

- work towards a **better understanding of SMEs' current social and environmental engagement**, including research into SME-specific aspects of CSR and the business case;
- foster the **exchange and dissemination of good practices cases** identified with the help of Member State and candidate countries experts, SME representative organisations, business support organisations and consumer organisations (e.g. through publications, on-line collection of good practices etc.);
- facilitate the development and dissemination of **user-friendly, tailor-made tools** for those SMEs that wish to engage in or further develop socially responsible actions on a voluntary basis (information material, SME-toolkit, etc.);
- **bring the attention of SME associations and business support organisations to CSR issues** with a view to their integration into support provision for responsible entrepreneurship initiatives in SMEs;
- **facilitate co-operation between large companies and SMEs** to manage their social and environmental responsibility (e.g. supply chain management, mentoring schemes etc.), in accordance with national and EU competition rules;
- **raise awareness among SMEs with regard to the impact** of their activities on developing countries, and promote SMEs proactive policies, in particular in the fields of core labour standards, eradication of child-labour, gender equality, education, training, health-care assistance and insurance.

(Op.cit, pg. 12)

Consumers also receive information through recognition schemes, such as listing of awards, prizes, labels, etc., which identify good practices on specific subjects. The **EU-Ecolabel** as well as **fair trade and ethical trade initiatives and labels** are examples of 3rd party verified product labelling schemes. They are, however, only available for a limited range of product categories. For most consumer products, relevant social and environmental information is not easily accessible. **(Op.cit, pg. 15)**

Building the capacity of "capacity builders"

Building on the Round Table discussions the Forum recognises that there are many organisations which can play a catalysing or support role for companies in their CSR efforts (for example business advisors, consumer organisations, investors, trade unions, media), and in some cases have a multiplier effect.

The Forum recommends that:

- such organisations **develop relevant understanding, skills and capacities on CSR**;
- **people who work on CSR be trained** to understand the economic, social and environmental impacts of relevant companies and how to support the development of best practices;
- **business advisors and support organizations** which wish to do so, **develop know-how on effective CSR practices**, to contribute to capacity building, take-up and assisting businesses in their CSR efforts;
- recognising that **not all stakeholders have the resources required to take CSR initiatives forward**, public authorities, companies and other stakeholders support capacity building activities.

(Final Results and Recommendations, pg. 14)

Including CSR in education and the curriculum

Business schools, universities and other education institutions have an important role to play in order to build the necessary capacity for relevant CSR strategies. Their core business is indeed about education. In this capacity they need to help future managers and employees improve their capacities to coherently approach CSR. But they educate not only the business world. They are essential to improve the knowledge on CSR for everybody in our capacity as consumer, employees, stakeholder partners, etc.

The Forum recommends that...

- **CSR and related topics be mainstreamed into traditional courses**, in the curricula of future managers and graduate students, in executive education, and in other educational institutions. (Ibid.)

Drawing on the experience of companies with well-developed transparency and communication policies, the Forum recommends that companies:

- **Explore the most suitable channels of communication** for them with a view to ensuring that information reaching different stakeholders is meaningful and credible to them;
- Have a clear commitment and strategy from the top towards transparency and communication on CSR, ensuring that **roles and tasks** for developing method and processes are **clearly defined and assigned**;
- Identify what **items are pertinent with regard to the company's vision and specific objectives**, the risks and opportunities associated with its environmental and social footprint, the views of relevant stakeholders, the commercial sensitivity of certain data, and other possible competitive concerns;
- **Identify and improving appropriate performance criteria** and where relevant drawing inspiration from existing tools or making use of any of the many transparency frameworks currently available;
- Collect and using information to ensure a **better understanding of the complexity of managing certain CSR issues** and sometimes **conflicting expectations**;
- **Consider the risks, opportunities and costs** of suitable tools and / or systems to improve the robustness and assure the quality of data;
- **Develop a continuous learning process** whereby the company can evaluate the overall impact of its practice, track changes in stakeholders' expectations, and share its experience with others. (Op.cit, pg. 15)

The Forum recommends that:

- **EU institutions and governments be consistent across policy areas**, taking a lead in moving towards the goal of sustainable development, both within Europe and at a global level, in particular through appropriate trade and development policies and international agreements, thereby setting a context for CSR;
- EU institutions and governments **encourage and assist all countries to ratify and implement international conventions** protecting human and social rights and the environment.
- As it is a clear **responsibility of national governments to promote democracy and human rights**, governments provide the appropriate **legal framework** for protecting human, social and economic rights of citizens, and a climate conducive to economic, environmental and social progress particularly in developing countries;
- **Public authorities** at different levels (EU, national, regional and local) **recognise their contribution to driving CSR**, alongside others, and in cooperation with stakeholders, assess and strengthen their role in raising awareness of, providing information on, promoting, and supporting the take-up, development and innovation of effective CSR, and the development of environmentally and socially responsible products and services;
- EU and / or Member States consider and evaluate how to use public funds in the most responsible and effective manner, taking into account environmental and social, as well as economic considerations.
- Public authorities examine their practices, know their social, environmental and economic impacts and disseminate best practice on their role as organisations, for example as employers and consumers. (Op.cit, pg. 16)

IV. Good Practice Cases

As one concrete example, of the 6,000 companies and stakeholders that are adopting sustainable and socially responsible policies within the framework of the **United Nations Global Compact** since its

creation in 2000, more than half are from emerging markets. **(The Moral Compass of Companies: Business Ethics and Corporate Governance as Anti-Corruption Tools, pg. V)**

Equal pay for equal work, fair balance of genders in managerial positions, promotion of diversity, inclusion programs for disabled employees, as well as for the youngest and seniors are some of the initiatives taken by co-operatives.

- Between **40 and 48% of the Boards are managed by women** and **Boards are composed at 60% of women** for **Polish co-operative banks**.

- The number of handicapped employees increased by 39% in 2008 with 853 collaborators thanks to a special taskforce implemented within the Groupe Banque Populaire.

- Consumer co-operatives, in close connection to the labour movement since their foundation have developed excellent working conditions. For example, they favour long-term and permanent contracts for their employees.

- Co-operatives put a lot of efforts into employees and members training. **(Cooperatives Europe, Stakeholder document, pg. 2)**

In 2010 different actions were undertaken by the CGPME concerning CSR: The main activity was our participation in the Working Group “**Labeling of responsible companies**”, set up by the **French Ministry of Ecology and Sustainable Development** in order to develop environmental certification and CSR labeling of firms. Concretely it consists in PROMOTING SMEs that are at the forefront on environmental and social issues. In order to be successful, the labeling process should be progressive and adapted to the size and the sector of the SMEs. It must be based on benchmarks developed within the concerned professional sectors. Finally, it is necessary to look for incentives to provide support. **(UEAPME and CSR, pg. 1)**

The Commission proposes to build its strategy to **promote CSR on a number of principles**. These are as follows:

- recognition of voluntary nature of CSR;
- need for credibility and transparency of CSR practices;
- focus on activities where Community involvement adds value;
- balanced and all-encompassing approach to CSR, including economic, social and environmental issues as well as consumer interests;
- attention to the needs and characteristics of SMEs;
- support and compatibility with existing international agreements and instruments (ILO core labour standards, OECD guidelines for multinational enterprises)

The Commission proposes to focus its strategy on the following areas:

- (1) Increasing knowledge about the positive impact of CSR on business and societies in Europe and abroad, in particular in developing countries;
- (2) Developing the exchange of experience and good practice on CSR between enterprises;
- (3) Promoting the development of CSR management skills;
- (4) Fostering CSR among SMEs;
- (5) Facilitating convergence and transparency of CSR practices and tools;
- (6) Launching a Multi-Stakeholder Forum on CSR at EU level;
- (7) Integrating CSR into Community policies

(Corporate Social Responsibility: A business contribution to Sustainable Development, pg. 8)

At a time when **every action is subject to scrutiny**, a company that ignores the social impact of its practises may pay dearly in terms of lost reputation, tarnished brand, higher employee turnover and diminishing consumer loyalty. As a part of the new “green” deal, the importance of the “triple bottom line”; profit, planet and people; has grown exponentially (Blowfield, 2008). There are more examples in the world and especially in the European Union when a defiance of these factors has

undermined company's abilities to meet its primary objective in the market. The rationale to investigate the CSR impact on macro and microeconomic growth in selected EU country is clear and present.

A major CSR driver is **socially responsible investment**, which allows investors to integrate personal values and societal concerns with investment decisions. In the U.S., for example, one dollar in every eight dollars or 13% of the \$16.3 trillion in investment assets were invested in socially responsible funds and an 82% increase since 1997 can be observed (Vaitiekuniene, 2008). It denotes a practical importance of the CSR research that is twofold: on a macro and microeconomic level. According to the macroeconomic viewpoint of the discussion, the prevailing hostility and self-assurance of modern entrepreneurial culture can be observed.

(Does the social relationship matter, pg. 2)

South Korean companies are generally much more aware of corporate responsibility (CR) and business ethics than they were a decade ago. This is reflected in the number of companies producing CR reports (stand alone or integrated in annual reports) which has increased from 11% in 2005 to 42% in 2008 (based on a sample of the 100 largest companies by revenue in South Korea). Reporting is most prevalent in the electronic and computers, utilities and oil and gas sectors. Many companies regard third party verification as important for ensuring the objectivity of their reports, with 67% of those reporting including a formal assurance statement. Much CR activity focuses on philanthropy and community engagement. The launch of the government's 'Green New Deal', in which it committed to spending £25bn on environmental projects, and the establishment of the 'Green Growth Committee' in 2009, has spurred many companies to step up their environmental and sustainability initiatives. **(Doing business in South Korea, pg. 13)**

Korea also has its own rankings such as the **Korean Business Ethics Index**. Launched in 2003, the index is compiled by the Ministry of Knowledge Economy and the Institute for Industrial Policy Studies. It provides a basic framework for evaluating the ethical management of public and private companies. More recently, the Dow Jones Sustainability Index (DJSI) launched two indices in South Korea in October 2009; the DJSI Korea (tracks the financial performance of the top 30% in terms of sustainability of the 200 biggest companies in South Korea) and a subset index, the DJSI Korea 20 (tracks the performance of the 20 largest companies in South Korea which have been included in the DJSI Korea). Such ratings help to raise awareness of business ethics. They also serve as an indication that the issue is being taken seriously by the investment community which in turn may encourage companies to do the same. **(Op.cit, pg. 15)**

Non-governmental agencies and not-for-profit organisations) has had a significant impact on promoting responsible business practice in South Korea. There are a growing number of industry, professional and educational bodies that seek to promote and build awareness of CR and business ethics. Some of the main organisations include:

- **Federation of Korean Industry (FKI)**

FKI is a business association representing more than 420 Korean corporations. Since the 1997 financial crisis, the Federation has sought to **promote transparent and ethical business management practice** in the private sector. The organisation introduced a **Corporate Ethics Committee** shortly after the financial crisis and have since introduced a **Charter of Business Ethics** which it encouraged member organisations to adhere to and in 2007 launched a comprehensive self assessment tool, **FKI-BEX (Business Ethics Index)** to help corporations evaluate their CR and business ethics programmes. The tool is available on the FKI website.

- **Korean Academy of Business Ethics (KABE)**

Launched in 2003, KABE hosts an annual award – 'Ethics Enterprise Award' which recognises companies for ethical management practices.

- **Transparency International – Korea (TI Korea)**

TI is a global non-profit organisation that seeks to promote a transparent, corruption free, ethical business environment. TI Korea was formed in 1999 through a coalition of civil organisations. The organisation

works together with citizens, government organisation and businesses to encourage a transparent and corruption free society.

- **The Institute for Industrial Policy Studies (IPS)**

Launched in 2003, the IPS run the 'B.E.S.T' Forum (Business Ethics is the Source of Top performance) - a multi-stakeholder forum for industry which aims to promote best practice in ethics management.

- **Asian Institute of Corporate Governance (AICG)**

Part of Korea University, the AICG encourages academic research, engagement in government policy development and provides training programs for top-level business managers. It is one of the leading research bodies within Asia on this area.

- **Centre for Good Corporate Governance**

A professional research centre established by experts and activists who had been at the forefront of movements for chaebol reform and financial market reform, the Centre is devoted to improving corporate governance system in South Korea.

- **Hills Governance Centre, Yonsei University (HGCY)**

The HGCY seeks to promote good governance across the private, public, and civic sectors by addressing institutional sources of corruption and promoting transparency and accountability within and among those sectors.

(Op.cit, pg. 16)

The chemicals industry has already launched several important initiatives in this direction. Continuity and perseverance in ongoing initiatives, such as **Responsible Care** and **Corporate Social Responsibility (CSR)** are essential. Best practices have shown that improvements in confidence and mutual trust can be achieved. These should be more widely adopted and extended into general 'day-to-day' activity. A larger part of the chemicals industry needs to become involved, be more proactive and less defensive. The sector is encouraged to set up a task force with stakeholders to work on developing a concept, including communication, for a sustainable European industry in this area. One reason for improving the dialogue is to establish closer cooperation and collaboration with downstream users and other stakeholders. Closer cooperation calls for appropriate and flexible structures for dialogue that go beyond traditional boundaries applied so far by university faculties, government departments and trade associations. The European Technology Platform SusChem is a good example of such a modern form of cooperation

and communication (see also section 1) as is the European Chemical Regions Network.

(**High level group on the competitiveness of the European chemicals industry, pg. 24**)

CSR can improve ROI when economic, social and environmental performances are equitable.

Participant two argues, "Many Chinese Singaporean businesses have a balanced approach to running a business enterprise, especially the very well established ones. Economic performance is as important as social contributions". Therefore, economic performance is vital to increase a country's competitive advantage and the quality of life. However, if global organizations focus solely on economic performance, this can lead to decreasing the quality of life and competitive advantage for the global organization and society because business, society and natural resources are interdependent. Participant one recommends, "The most basic premise is that as individuals and organizations, we need to take only what we need from the environment and buy only what we need". Thus, CSR can increase Return On Investment (ROI) when a global organization integrates economic, social and environmental performance equitably.

(**Innovations in Corporate Social Responsibility from Global Business Leaders, pg. 2**)

HRD can drive cross-cultural CSR in a global organization.

Participant three argues, "Unlike most countries, Singapore is dependent on human capital, being a small nation with almost no natural resources. Human resources have been identified as the single most

important strategic capital in its strategic economic plan. Thus, Singapore has to continuously adapt its HRD strategies and practices in public and private sectors to keep pace with the domestic as well as regional/global environmental changes" (Osman-Gani and Chan,2009). Furthermore, Participant three recommends learning about "cross-cultural negotiation not just from the cultural diversity perspective of the United States but also from that of other multicultural, multiethnic societies" (Osman-Gani and Tan, 2002). Consequently, "HRD professionals will have to equip themselves with cross-cultural competencies and then help train the other employees in effectively managing a diverse and cross-cultural workforce" (Osman-Gani and Chan, 2009). Thus, HRD can play a vital role in increasing the competitive advantage of global organizations through implementation of CSR best practices and policies and providing cross-cultural trainings of CSR in global negotiations, global leadership and global strategy because multiculturalism is practiced differently in many countries.

(Ibid.)

Some companies offered employee benefits that far exceeded their industry standard. For example, Rhythm & Hues offered its artists 9 weeks of paid-time-off per year – in an industry with a poor reputation for treating its employees (Choi, 2005). Patagonia offered the first corporate on-site childcare program when it opened its Great Pacific Child Development Center in 1984 (Maraga, 1998). Stonyfield offered an array of benefits to all employees including free massages as well as bonus and stock option programs (Gray, 2002b). Eileen Fisher provided her 400-plus employees a sense of ownership by sharing at least 10% of pre-tax profits with them each year. Furthermore, all her employees received a \$1,000 education benefit and a \$1,000 wellness benefit, to be spent on rejuvenators such as massages, spa visits, and gym equipment (Choi, 2004d). **(Socially responsible entrepreneurs, are they different, pg. 5)**

For many of our socially responsible entrepreneurs, donating company profits and other resources was considered not an afterthought but an important function of business. Yvon Chouinard of Patagonia, for instance, made it very clear that providing money for environmental causes was one of the principal reasons he was in business in first place (Chouinard, 1995). To institutionalize its giving, Patagonia established an **Environmental Grants Program** in 1985, which dispersed over \$14 M to more than 900 groups by the year 2000. The program was funded by what the company called its "**Earth Tax**", a yearly levy of 1% of sales or 10% of pre-tax profits, whichever was greater. In 1985, Ben and Jerry's established a foundation with a one-time gift of \$45 M and 50,000 shares of common stock (Cohen & Greenfield, 1997). The firm's annual contribution to the foundation was set at 7.5% of pre-tax profits. Stonyfield Farm created a "Profits for the Planet" program under which the company donated 10% of pre-tax profits annually to organizations that served to protect and restore the environment (Gray, 2002b). In the like fashion, "Tom's of Maine Grant Programs" committed the firm to giving 10% of its profits to worthy environmental and social organizations (Gray, 2002c). **(Op.cit, pg. 7)**

Orin Smith, who recently replaced founder Howard Schultz as CEO of Seattle-based Starbucks, agrees. **"Corporate social responsibility is built into our business model, the loyalty circle"**, he says. Profits correlate highly to customer loyalty, and customer loyalty correlates to employee loyalty. "When you have social commitments like making a difference for the environment and for farmers, that builds loyalty. It builds a passion for this company." And passionate employees create loyal customers, which creates profits. Because Starbucks considers corporate social responsibility (CSR) integral to its success, the company has been a leader at institutionalizing it—through innovative steps like the audited social report created in 2002, and regular CSR training for upcoming company leaders. "It's such an inherent part of the business model, our company can't work without it," Smith says. That's probably the best insurance a social mission can have. **(The legacy problem, pg. 3)**

V. CSR and SMEs

The challenges of CSR for SMEs

How to justify the allocation of time and resources to activities beyond the daily running of the business is seen as the greatest obstacle to CSR. Time and resources are limited by the size of the company, particularly a lack of dedicated CSR personnel. Other common difficulties are:

- Getting employees involved in CSR activities
- Making connections with communities
- A lack of information
- Too many short term projects
- Getting equal commitment from all sides of a project
- Measuring the intangible benefits.

(Corporate social responsibility – engaging SMEs in the debate, pg. 6)

The benefits of CSR for SMEs

The business case for CSR is often promoted, and it is assumed that such benefits are also felt by SMEs. The companies studied listed numerous benefits to engaging in CSR:

- Improved image and reputation.
- Improved trust and understanding.
- Larger, more prominent profile.
- Better market position.
- More business.
- Increased employee motivation.
- Increased attractiveness to potential recruits.
- Cost savings and increased efficiency.
- Risk management.
- Benefits company culture.

While all the companies in this study agree that CSR is beneficial to them in many ways the business case for CSR is less clear to them. They describe the benefits as 'intangible' or 'soft' and seek greater proof of hard financial benefits, and answers to the difficult questions surrounding how to measure the benefits of CSR. The companies in this study are least convinced by the benefits of charitable or philanthropic CSR.

(Op.cit, pg. 7)

As we have shown, the voluntarism behind CSR can also be internally driven, at least in a SME context. The studied entrepreneurs showed an unmistakably intrinsic motivation to embrace CSR practices, a motivation stemming from their personal, socially tinged, values. A finding sparking off considerable implications with regard to business ethics, but also regarding society as a whole as we pointed out. Furthermore, our research based on **Schwartz's value theory** confirmed that values such as **benevolence** and **universalism** are indeed heavyweights in the value patterns of these entrepreneurs, which logically accounts for their socially responsible entrepreneurship. The first violin in these value patterns however is played by **self-direction**, a value type strongly intertwined with self-realisation, intrinsic motivation, creativity and a sense of positive freedom. Empirically backed by Schwartz's value circle, and inspired by Ricoeur's moral philosophy, we argued that it is exactly this sense of self-direction that allowed the studied entrepreneurs to introduce their personal human values to their professional sphere. Self-direction thus lying at the heart of emerging human values, and consequently, CSR. Debates tackling the possible approaches to encourage CSR in a SME context should never omit this finding, since it is clear that without his autonomy and room for creativity, an entrepreneur might very well give up on CSR. **(Driving forces behind CSR in SME context: internally driven CSR, pg. 13)**

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(Engaging SMEs in community and social issues, pg. 22)

We need more academic research on CSR and SMEs. The recent growth of academic interest in CSR and SMEs is to be welcomed. Further research should be encouraged on action-oriented questions such as: the success or otherwise of different policies and techniques to increase the uptake of CSR amongst

SMEs; the economic, social and environmental impact of CSR at regional and local level; the usage and utility of CSR tools for SMEs; and a typology of SMEs with regard to their engagement in CSR.

The challenge is big and the rewards are great. There are some **24 million SMEs in the European Union**. The ultimate aim must be to positively affect the behaviour of a significant proportion of those enterprises. The guiding principle should be to foster small but significant steps by a very large number of enterprises, rather than striving for formal and sophisticated CSR policies amongst a small elite. This will contribute to the positive evolution of European business culture in a way that will enhance Europe's competitiveness and its ability to deliver sustainable development and a better quality life of for its citizens. **(Good Opportunity and responsibility, pg. 12)**

There is a **need to develop more comprehensive business support services on CSR for SMEs**. There are already well-established structures providing business development support that target SMEs, but few of these seek to integrate social or environmental issues into their activities. There is significant potential to do so, by taking insights from the CSR agenda into the enterprise development field. There is also a need for stronger involvement of business representative organisations such as chambers of commerce in CSR advocacy and awareness raising, and in providing CSR implementation support to their SME members.

Any public or private support measures must take account of the national or sectoral context, and be clear about the preconditions for successful implementation. There is also a **need to build mechanisms that allow the coordination and representation of SMEs on CSR issues**, which are discouraged by the disparate nature of the SME sector. Where SME associations do exist, they tend to focus on lobbying to resist stricter social and environmental controls, and they are reluctant to engage in CSR initiatives that they would regard as adding to the burdens their members already face. This implies the need for sensitive engagement with such associations, based on a realistic discussion of the benefits and the costs. The need for appropriate organisational mechanisms applies also at the implementation level. For example, approaches to allow SMEs access to supply chain standards generally focus on group certification, which relies on institutional structures that allow internal coordination and control systems. Where cooperatives or equivalent structures do not already exist, significant investments are needed to create them. **(Small and Medium-sized Enterprises and Corporate Social Responsibility, pg. 9)**

The essential role of advisors

A consistent observation in the literature on responsible business practice in SMEs is the need to involve existing bodies and organisations from which SMEs seek advice and business services instead of creating a new and separate stream of advice. The UK's Department of Trade and Industry's Engaging SMEs in community and social issues research found SMEs feel already bombarded by too many organisations offering advice and support. Instead of another body championing CSR in SMEs, enterprises indicate they would rather use their existing network organisations to share knowledge and get access to best practice advice (2002).

Grayson and Dodd note that 'it is necessary to work with and through organizations that are already known and trusted by SMEs: chambers of commerce, small business advisors, trade associations, etc. Banks, lawyers and accountants could also serve as credible channels of communication' (2007).

Our initial SME consultations verified this approach. The SMEs with which we engaged suggested the most appropriate stream of advice for responsible business practices should come from local industry associations, banks, accountants/bookkeepers, and lawyers — entities already providing counsel and support for SMEs in Australia. **(Op.cit, pg. 58)**